

INF-86-1 Cost Allocation:Instructions for Allocating the Cost of
State Integrated System Developments Among HHS, FSA, HCFA Office
of Human Development Services and FCS.

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October 30, 1986

I am writing to you, and the heads of all State public assistance and social service agencies, in order to inform you of the terms of an agreement reached by the U.S. Department of Health and Human Services (HAS) and the U.S. Department of Agriculture, Food and Nutrition Service, concerning the apportionment by your agencies of the cost of integrated public assistance and social service automatic data processing system developments among Federal and State programs. The agreement pertains to those HHS public assistance and social service programs covered by HHS regulations at 45 CFR 95.600, Subpart F, "Automatic Data Processing Equipment and Services--Conditions For Federal financial Participation", and the Food Stamps program.

The agreement establishes for the first time uniform cost allocation principles for use by States when apportioning the cost of their public assistance and social service system developments. The Federal agencies expect that as a result of having developed and agreed to uniform procedures, State and Federal agencies will find it easier to agree on system development cost allocations.

The terms of the agreement, which we have outlined in the enclosed instruction, are intended to maximize direct charging to specific Federal and State programs, and ensure an equitable distribution of common costs. The agreement will also minimize the accounting procedures which States must implement for systems developments with less than \$1 million in total development costs.

If you or members of your staff have questions or comments concerning this issue, please contact Joseph F. Costa, Acting Director, Office of State Systems Standards and Review on (202) 245-6941.

S. Anthony McCann

Assistant Secretary for
Management and Budget

Enclosure

CC: John Berry, HCFA
Jean Elder, OHDS
Robert Leard, FNS
Wayne Stanton, FSA

Instructions
For
Allocating the Cost of State Integrated System Developments
Among
The Department of Health and Human Services
Family Support Administration
Health Care Financing Administration
Office of Human Development Services
and
The Department of Agriculture
Food and Nutrition Service

I. Purpose:

This instruction presents uniform procedures for State use in developing proposals for apportioning the cost of State integrated public assistance and social service automatic data processing system developments among Federal and State programs. Federal agencies have agreed to review State-proposed cost allocation methodologies for allocating the cost of integrated systems against the uniform procedures presented herein.

II. Applicable Programs

These procedures apply to automatic data processing systems developed in support of programs under: Titles I, IV-A, IV-B, IV-C, IV-D, IV-E, X, XIV, XVI (AABD), and XIX of the Social Security Act; and under the Food Stamps Act.

III. Effective Date

These procedures are effective immediately. Cost allocations submitted by States before promulgation of the procedures outlined herein, which do not conform to these procedures, will be reviewed as submitted. If Federal agencies find such cost allocations to be unacceptable, they will request the affected State to develop a cost allocation consistent with the principles outlined herein.

IV. Background

The Federal government strongly encourages States to develop and use integrated ADP systems in the administration of public assistance programs, i.e., Aid to Families with Dependent Children, Medicaid, Child Support Enforcement, and Food Stamps, etc. ADP systems--especially "integrated" ones that support more than one program through joint operations--lower program costs by making State/local workers more productive and by reducing the incidence of erroneous payments to public assistance clients.

Most State integrated public assistance systems have been designed with the AFDC program requirements at their core, with unique Medicaid, Food Stamps, Child Support Enforcement and Child Welfare requirements added as necessary. This is because eligibility determination is the first step in the public assistance process, and eligibility for AFDC is, in most cases, the initial determinant for receiving public assistance.

When States request prior approval for system development costs, one of the things their Advance Planning Document (APD) or project plan must present is the formula they propose for allocating the costs among the programs the system will support. This is usually called the "cost allocation methodology."

Currently, advance planning documents have been approved with a variety of cost allocation methodologies. Federal agencies have generally agreed that the cost of system modules developed in support of functional requirements that serve only one program's needs should be charged solely to that program and that most shared modules should be allocated either in the same ratio as the solely charged modules, or in proportion to the number of public assistance clients served by each program utilizing the system module. However, some shared eligibility determination modules utilized by both AFDC and Medicaid have presented a special allocation problem: Medicaid eligibility is statutorily tied to AFDC eligibility. The procedures outlined herein take this factor into consideration.

In October 1985 a Steering Committee consisting of representatives from all affected HHS public assistance programs and Department of Agriculture's Food Stamps program was convened--with the assignment to evaluate and recommend improvements in policies or procedures concerning State ADP system approvals. A subgroup of the Steering Committee analyzed several options for standardizing cost allocation methods. Based on this subgroup's findings, and after extensive negotiations with each of the concerned agencies, the Steering Committee agreed on the cost allocation procedures presented below, which have been ratified formally by the affected Federal agencies:

V. Cost Allocation Procedures

A. Multiple Agency Systems With Development Costs in

E x c e s s o f S I M

1. Preparation of an APD

The following procedures should be used by State agencies in assigning the proposed development costs of an APD to the respective funding sources, including State only programs:

- (a) If any system module developed in support of a functional requirement in an integrated ADP system benefits one program exclusively, the cost of designing, developing and installing the module will be "direct charged" in full to that program.
- (b) The costs of modules that benefit more than one program, but not all, will be assigned to one of several intermediate cost pools, each consisting of the cluster of programs that benefit from the module involved; e.g., AFDC/RRP/GA, AFDC/FS, AFDC/RRP, etc.

In addition, a separate intermediate cost pool that includes the following modules will be developed: name clearance, application registration, verification monitoring, inquiry, case transfer, case tracking and third-party liability tracking. The costs assigned to this pool will be assigned to all benefiting programs. It is also agreed that the Office of Family Assistance (OFA) will pay any costs of this intermediate cost pool that are assigned to the Medicaid program.

When developing intermediate cost pools, States must take into consideration that: 1) OFA (Title IV-A) pays the cost of system modules involving the collection of data elements required to be collected by Title IV-A, but used by Title IV-D, and 2) Title IV-A pays costs of system modules developed in support of the IV-C Program.

Distribution of the costs in each intermediate cost pool should be based on a methodology proposed by the State. The State must explain and justify each methodology in its APD, and the methodology will generally not be challenged by the funding agencies unless they can clearly show that it produces significant inequities in the distribution of costs.

- (c) Costs of systems modules that benefit all programs ("common" costs) will be assigned to a separate pool. If the sum of all costs identified in steps (a) and (b) above is 50 percent or more of the total APD costs, the common costs will be allocated to the individual programs in the same ratio as the aggregate of step (a) and step (b) costs. If the aggregate of costs included in (a) and - (b) is less than 50 percent, the State will either be required to do a better functional analysis of their planned system or use a special allocation methodology to be developed by the State. Again, where a special methodology is proposed, the State must explain and justify it as part of the APD, and it will not be subject to challenge by the funding agencies unless they can clearly show that it would produce significant inequities.

A 50 percent break for this element of these procedures has been adopted based on an analysis of past State funding requests which indicates that in most cases costs directly charged to a single program or to a group of programs constitute the majority of a system's overall costs.

- (d) System modules, in limited situations, may not be well enough defined to permit use of this three-step allocation method at the time the initial planning document is submitted for approval. If that is the case, States will be permitted to charge initial system planning and design costs using any reasonable allocation method and charges will be retroactively adjusted in accordance with the above process.

2. Claiming Costs Under an Approved APD

It is agreed that the actual costs, incurred in the development of an approved system, will be distributed to the respective funding sources, using the methodology included as a part of the approved APD.

B. Multiple Agency System Development APD's Of Less than \$1M

1. Preparation of an APD

In the development of an APD, it is agreed that States will use the procedures outlined in V. A. 1. above in identifying the proposed costs to the respective funding sources, including State only funds.

2. Claiming Costs Under an Approved APD

It is agreed that the actual costs, incurred in the development of an approved system, will be distributed to the respective funding sources, using the ratio of each funding source's portion identified in V. B. 1. above to the total approved APD. This ratio will be fixed and not subject to change.